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SIPDIS

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SUBJECT: ADMIRAL FALLON'S VISIT TO THE PHILIPPINES

Classified By: (U) Political Officer Paul O'Friel
for reasons 1.4(b) and (d).

1. (C) SUMMARY. President Arroyo told Admiral Fallon during his March 28-30 visit she intends to move Southern Command (SOUTHCOM) headquarters to Pagadian in order to take the fight closer to Abu Sayyaf Group (ASG) and Jemaah Islamiyah (JI) terrorists. National Defense Secretary Cruz's focus on Philippine Defense Reform (PDR) includes fixed tenures for the Armed Forces of the Philippines (AFP) Chief of Staff and Superintendent of the Philippine Military Academy. Cruz predicted it will take 3-4 years for major changes to take root, and has in place a new leadership team to see the process through. He claimed that anti-terrorism legislation would be at the top of the GRP's agenda once both houses of Congress had passed a value-added tax bill. END SUMMARY.

2. (C) Incoming US Pacific Command Commander Admiral William Fallon's March 28-30 orientation visit to the Philippines included meetings on March 29 with Secretary of National Defense Cruz and AFP Chief of Staff General Efren Abu. Admiral Fallon joined Ambassador and President Gloria Macapagal-Arroyo on a March 30 trip to Mindanao to inspect USAID-funded infrastructure and other development projects in the vicinity of Camp Abubakar, Maguindanao, the former stronghold of the Moro Islamic Liberation Front (MILF) captured by the AFP in 2000.

SOUTHCOM TO MOVE

3. (C) On the margins of a lunch with local officials at Camp Abubakar, President Arroyo noted that she had directed Lieutenant General Alberto Braganza, the commander of SOUTHCOM, to move his headquarters forward from its present location in Zamboanga to Pagadian (currently the headquarters of the 1st Infantry Division) to fight better ASG and JI terrorists. LTG Braganza subsequently stated that he planned to complete the move, which would also involve the transition of the 1st Infantry Division to Zamboanga, "before the end of the year." (Note: The SOUTHCOM Chief of Staff separately indicated that this timeline might even be accelerated to mid-summer 2005. End note.)

CRUZ'S PRIORITIES

4. (C) In his meeting with Admiral Fallon, Secretary Cruz laid out five major priorities:
o Philippine Defense Reform (PDR);
o the Capability Upgrade Program (CUP);
o supporting the peace process with the MILF;
o improving the RP's anti-terrorism capabilities; and,
o upgrading the quality of life (e.g., housing) for Filipino soldiers.

DEFENSE REFORM

5. (C) Elaborating on PDR, Cruz said he is focused on implementing the 10 major recommendations of the 2003 Joint Defense Assessment, noting that the arrival of US subject matter experts should speed up improvements in key areas, such as defense acquisition and personnel management. Among his targets is a fixed three-year tenure for the AFP Chief of Staff and the Superintendent of the Philippine Military Academy (PMA). "Change the tenure, and you change the landscape (of the AFP)," Cruz said. As an example of the need to reform, he ruefully pointed to the PMA's entrant-to-graduate ratio, which now stands at 36-percent. "My goal is 65-percent," Cruz stated.

6. (C) Cruz added he hoped to reduce personnel costs, which now account for 75-80-percent of the AFP's budget. "We need to change the tooth-to-tail ratio," he said, noting AFP troops were performing a lot of "non-core" jobs, such as guarding ballot boxes and participating in anti-smuggling and anti-kidnapping task forces. Despite "a lot of screaming," Cruz said he was slowly making headway on this objective. Other envisaged personnel reforms would include transitioning from a fixed ratio of general officers to a position-based system and ending use of the lineal list for promotions.

Cruz expressed sharp frustration with the lineal list, likening it to an "escalator process" where officers had to "wait for someone to die" to get promoted. "We need a system of deep promotion," he said.

17. (C) To implement his reform agenda, Cruz said he had established a calendar of regular meetings with AFP Chief of Staff Abu and the major service commanders to discuss issues. Asked how long he would stay on as Defense Secretary, Cruz projected it would take 3-4 years to put in place major changes, and was confident that his new all-civilian senior leadership team would help see the process through. Cruz, who expressed disappointment that the present 400-person DND civilian staff was not performing at a "professional level," said his target was to create a pool of 30-40 professionals who could serve as a catalyst for change.

CAPABILITY UPGRADES -----

18. (C) The CUP consists of an 18-year program separated into three six-year tranches aimed at addressing the AFP's most compelling equipment needs to win the counterinsurgency fight, according to Cruz. With a rough total budget of P110 billion (approximately \$2 billion), the priority is on mobility: trucks, patrol craft, and -- most importantly -- helicopters, of which Cruz hopes to obtain 100 more for the AFP inventory.

MILF PEACE PROCESS -----

19. (C) Cruz spoke optimistically of the GRP's peace process with the MILF, claiming there is "consensus to push ahead." He indicated the GRP is prepared to engage constructively on the "ancestral domain" issue and was confident the Malaysian-brokered peace talks set to resume on April 16 would succeed.

ANTI-TERRORISM -----

10. (C) Looking beyond the AFP, Cruz said he wanted to improve the GRP's broad-based anti-terrorism capabilities, including improving inter-agency coordination within the Anti-terrorism Task Force. Cruz claimed anti-terrorism legislation would be at the top of the GRP's legislative agenda, once both houses of Congress had passed a value-added tax bill.

CHIEF OF STAFF FOCUSED ON NCO DEVELOPMENT -----

11. (C) Separately, AFP Chief of Staff Abu told Admiral Fallon that, after 35 years of dealing with insurgencies, the Philippine people were "fed up." The AFP had to make itself more capable to respond to and deal with these threats. Abu described his goal as tailoring the AFP for counterinsurgency operations. "We need to shoot, move, and communicate," he stated, noting he had reduced the number of "J" staff positions from 11 to 7. Abu added he was spending a "lot of effort" on PDR, and was specifically focused on developing non-commissioned officer (NCO) training. Undersecretary for Defense Reform Ernesto Carolina in his meeting with Admiral Fallon underscored the importance of NCO training. Fifteen AFP instructors who had just completed training at US schools in Hawaii would form the core staff for the centralized NCO Academy located at the 2nd Infantry Division, and would focus on instituting change.

COMMENT -----

12. (C) While strongly applauding the concept of bringing the fight closer to the terrorists, we are not sanguine that SOUTHCOM's transition from Zamboanga to Pagadian will occur seamlessly. Unlike Zamboanga, Pagadian has no direct flights to Manila, and its infrastructure is inadequate to support a headquarters. A better choice might have been Cotobato City, which does have direct flights, and whose 6th Infantry Division is bearing the brunt of current combat operations against ASG/JI terrorists hiding in the Liguasan Marsh and the Kraan Valley.

13. (C) Cruz has put together a talented team of civilian undersecretaries, three of whom come directly from high-paying jobs in the private sector, and we are encouraged by his professed commitment to put together a core cadre of professionals who will serve as a catalyst for change. The Philippine Defense Secretary has the right instincts to focus on a fixed tenure for the Chief of Staff, "J" staff, service chiefs, and PMA superintendent as the only means of seeing through reform. However, to beat the insurgents he also needs to end the revolving door at SOUTHCOM, and identify and keep in place a tough commander who can find, fix, and finish the terrorists. End comment.

14. (U) Admiral Fallon did not have an opportunity to clear this message.

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